

## BEA Systems Under New Pressure to Be Sold

Yefim V. Natis, John Rizzuto, Massimo Pezzini

Carl Icahn has invested more than \$400 million to acquire a significant stake in BEA and is advocating the sale of the company. BEA's management team disputes his assertions and BEA's board is under pressure to respond.

## NEWS ANALYSIS

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### Event

On 14 September 2007, billionaire investor Carl Icahn informed the U.S. Securities and Exchange Commission that he held 33.4 million BEA Systems shares and call options (a total stake of 8.5%). He also indicated his intent to press BEA's board to sell the company.

### Analysis

Rumors of a sale of BEA have been floating for years, but this event raises the likelihood that this (or something similar) will happen. (Icahn's action does not guarantee that the firm will be sold. Not all of his runs at companies have been successful and a variety of business outcomes are possible.)

BEA technology (WebLogic, AquaLogic and Tuxedo) is one of the leading offerings in the business application infrastructure markets. BEA is well-known for its engineering excellence and enjoys a large and loyal installed base of over 18,000 enterprises worldwide. Its technology, installed base, international presence and visionary engineering talent are all assets that would be considered by prospective buyers. But acquisition of a software company cannot be handled in the same way as for most other businesses. An acquirer must preserve the engineering momentum and customer loyalty or it will lose all the assets in a relatively short time.

Any list of potential acquirers is highly speculative, but Oracle and HP have expressed interest in BEA in the past. Others, including CA, IBM, Fujitsu, Sun and Microsoft, might become interested, each for a different reason. BEA is a leader in a critical service-oriented architecture (SOA) infrastructure market. Some prospective acquirers might act to gain that market leadership. Others may act to prevent the strengthening or emergence of competitors. The motivation of the acquiring company and its skill with software will be critical if a sale occurs. The outcome could be stronger market power for BEA under new management, or a gradual decline of its leadership and presence.

Icahn's stated motivation for his investment is that the value of BEA is unrecognized by the financial markets and could be better realized through the sale of the company. BEA's management disputes Icahn's assertion that the sale of the company will benefit shareholders. Icahn is not yet in a position to control BEA management. There will be future steps by Icahn and BEA's board and management, and the full impact might be six or more months away.

### RECOMMENDATIONS

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- **Users of BEA technologies:** Do not expect any material changes to the support of your products during the next six to 12 months and don't be compelled to urgent action. However, it is prudent to seek familiarity with alternatives to BEA offerings. Anticipate some change, but whether the change strengthens or weakens the BEA technology will depend on many, as yet uncertain, variables.
- **BEA prospects:** Ensure that any proposed contracts with BEA include favorable provisions (such as source code escrow) for the possibility of the acquisition of the company. Well-established BEA products will likely remain supported for the next five years even in the worst-case scenario. But the more recent BEA products with fewer installations might be at a higher risk.

- **All parties interested in application infrastructure markets:** View the situation as potentially disruptive and monitor the relevant events closely.

## RECOMMENDED READING

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- "BEA Turns to Event-Driven SOA" — BEA's announcement of a complex event processing product signals its recognition of the growing importance of event processing in high-end enterprise computing. **By Yefim Natis and Massimo Pezzini**
- "Key Issues for Platform Middleware" — Gartner research on platform middleware will help users find their way as this market enters a tumultuous phase in which new technologies, business models and go-to-market strategies are introduced. **By Massimo Pezzini and Yefim Natis**

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## REGIONAL HEADQUARTERS

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### Corporate Headquarters

56 Top Gallant Road  
Stamford, CT 06902-7700  
U.S.A.  
+1 203 964 0096

### European Headquarters

Tamesis  
The Glanty  
Egham  
Surrey, TW20 9AW  
UNITED KINGDOM  
+44 1784 431611

### Asia/Pacific Headquarters

Gartner Australasia Pty. Ltd.  
Level 9, 141 Walker Street  
North Sydney  
New South Wales 2060  
AUSTRALIA  
+61 2 9459 4600

### Japan Headquarters

Gartner Japan Ltd.  
Aobadai Hills, 6F  
7-7, Aobadai, 4-chome  
Meguro-ku, Tokyo 153-0042  
JAPAN  
+81 3 3481 3670

### Latin America Headquarters

Gartner do Brazil  
Av. das Nações Unidas, 12551  
9º andar—World Trade Center  
04578-903—São Paulo SP  
BRAZIL  
+55 11 3443 1509